

PELLA COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2005



## TABLE OF CONTENTS

Officials		<u>Page</u> 2
Independent Auditor's Report		3-4
Management's Discussion and Analysis (MD&A)		5-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	17
Statement of Activities	B	18-21
Governmental Fund Financial Statements:		
Balance Sheet	C	22
Reconciliation of the Balance Sheet -		
Governmental Funds to the Statement of Net Assets	D	23
Statement of Revenues, Expenditures and Changes in Fund Balances	E	24
Reconciliation of the Statement of Revenues, Expenditures And Changes		
in Fund Balances - Governmental Funds To the Statement of Activities	F	25
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	26
Statement of Revenues, Expenses and Changes in Net Assets	H	27
Statement of Cash Flows	I	28
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	J	29
Statement of Changes in Fiduciary Net Assets	K	30
Component Unit Financial Statements:		
Statement of Net Assets	L	31
Statement of Revenues, Expenses and Changes in Net Assets	M	32
Notes to Financial Statements		33-44
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in		
Balances - Budget and Actual (Cash Basis) - All Governmental Funds		46-47
and Proprietary Fund		
Budgetary Comparison Schedule - Budget to GAAP Reconciliation		48
Notes to Required Supplementary Information - Budgetary Reporting		49
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Special Revenue Funds:		
Combining Balance Sheet	1	51
Combining Schedule of Revenues, Expenditures and		
Changes in Fund Balances	2	52-54
Proprietary Funds:		
Combining Statement of Net Assets	3	55
Combining Statement of Revenues, Expenses and Changes		
in Fund Net Assets	4	56
Combining Statement of Cash Flows	5	57
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	6	58-59
Agency Funds:		
Schedule of Changes in Fiduciary Assets and Liabilities	7	60
Schedule of Revenues by Source and Expenditures by Function -		
All Governmental Funds	8	61
Schedule of Expenditures of Federal Awards	9	62
Independent Auditor's Report on Internal Control over Financial Reporting		
and on Compliance and Other Matters Based on an Audit of Financial		
Statements Performed in Accordance with Government Auditing Standards		63-64
Independent Auditor's Report on Compliance with Requirements Applicable		
to Each Major Program and on Internal Control over Compliance		
in Accordance with OMB Circular A-133		65-66
Schedule of Findings and Questioned Costs		67-69

PELLA COMMUNITY SCHOOL DISTRICT

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b> (Before September, 2004 Election)		
Paul Van Zee	President	2004
Ivan Vos	Vice President	2005
Marv Van Wyk	Board Member	2004
Joe Michels	Board Member	2005
Myron Linn	Board Member	2006

<b>Board of Education</b> (After September, 2004 Election)		
Ivan Vos	President	2005
Myron Linn	Vice President	2006
Joe Michels	Board Member	2005
Marv Van Wyk	Board Member	2007
Joan Corbin	Board Member	2007

<b>School Officials</b>		
Mark Wittmer	Superintendent	2005
Jon E. Miller	District Secretary/Treasurer	2005
Ron Peeler	Attorney	Indefinite



### Independent Auditor's Report

To the Board of Education  
Pella Community School District  
Pella, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District, Pella, Iowa, and its aggregate discretely presented component units, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pella Community School District and its aggregate discretely presented component units at June 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2005 on our consideration of Pella Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 14 and 46 through 49 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pella Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 9, including the accompanying Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

September 21, 2005

# Management Discussion and Analysis

The Pella Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

## Financial Highlights

- The enrollment count on September, 2003 showed a decrease of 46.7 students. This resulted in \$23,222 negative new money for 2004-2005. The District did, however, utilize the 1% budget guarantee, which achieved net new money of \$99,049.
- General Fund revenues for FY05 were \$14,052,119 compared to \$13,784,562 for FY04. This was an increase of \$267,557, or 1.94%.
- General Fund expenditures for FY05 were \$13,928,872 compared to \$13,772,306 for FY04. This was an increase of \$156,566, or 1.1%. The District still managed to provide a 4.51% total compensation package to staff members. Budget reductions of \$260,488 were implemented, which included the elimination of six study hall associate positions.
- The District's General Fund undesignated, unreserved fund balance for FY05 was \$1,508,599 compared to \$1,604,278 for FY04. This is a decrease of \$95,679.
- The Financial Solvency Ratio is an accepted measure of the district's financial health and is calculated by taking the undesignated, unreserved fund balance divided by the total revenues. This ratio decreased from 10.9% in FY04 to 10.7% in FY05. The District attempts to target a solvency ratio of 10%.
- Interest income improved as rates began to rebound. General Fund interest income for FY05 was \$73,682 compared to \$19,655 for FY04, \$74,313 for FY03 and \$102,946 for FY02.
- The District had a special education positive balance of \$26,055 for FY05. This balance, when added to the \$74,989 balance from the previous year, gave us a total positive balance of \$101,044. This is \$7,471 over our allowable 10% carryover of weighted receipts. The District will rescind 87.5% of this \$7,471, or \$6,537, to the state of Iowa.
- A four year comparison of the District's assessed valuations, tax increment financing and total tax rates are as follows:

<u>Year</u>	<u>Assessed Valuation</u>	<u>Tax Increment Financing</u>	<u>Total Tax Rate</u>
2004-2005	\$458,097,534	65,307,399	13.57896
2003-2004	477,138,783	60,053,193	13.31915
2002-2003	470,594,593	46,139,452	13.15690
2001-2002	442,301,775	31,155,430	13.66552

The assessed valuation for the 2004-2005 school year dropped due to the state imposed agriculture rollback. This reduction in assessed valuation was offset to some degree by an increase in tax increment financing valuation, but still drove our overall tax rate up.

## Overview of the Financial Statements

This report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the short term as well as what remains for future spending.
- The statements for *proprietary funds* offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.
- The statements for *fiduciary funds* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

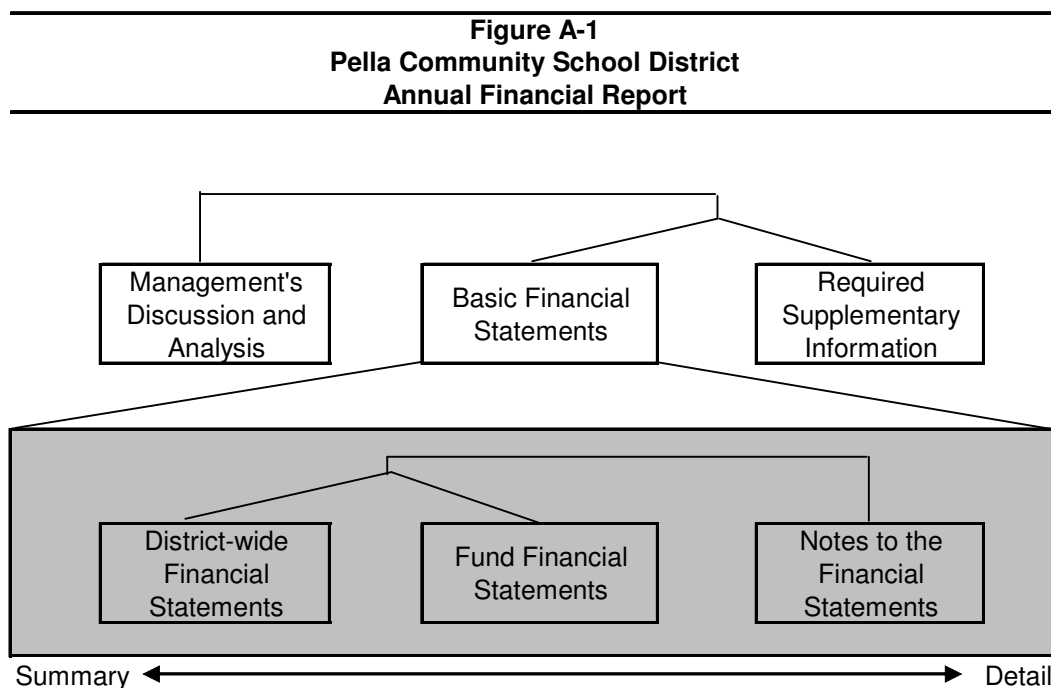




Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management's discussion and analysis highlights the structure and contents of each of the statements.

<p style="text-align: center;"><b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b></p>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/ liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/ outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two District-wide statements report the District's *net assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school food service program would be included here.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

*Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental fund statements explains the relationship or differences between the two statements. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

*Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

*Fiduciary funds:* The District is the trustee, or *fiduciary*, for assets that belong to others, such as a scholarship fund. The District accounts for outside donations to specific District schools for specific purposes in this fund. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

## Financial Analysis of the District as a Whole

**Net assets** – Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2005 compared to 2004.

<b>Figure A-3</b>							
<b>Condensed Statement of Net Assets</b>							
<b>(expressed in thousands)</b>							
	<b>Governmental Activities</b>		<b>Business-type activities</b>		<b>Total</b>		<b>Total Change</b>
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2004-2005</b>
Current and other assets	\$ 24,355	9,858	211	210	24,566	10,068	144.0%
Capital assets	17,460	16,328	128	123	17,588	16,451	6.9%
<b>Total assets</b>	<b>41,815</b>	<b>26,186</b>	<b>339</b>	<b>333</b>	<b>42,154</b>	<b>26,519</b>	<b>59.0%</b>
Long-term debt obligations	19,368	6,978	-	-	19,368	6,978	177.6%
Other liabilities	9,148	7,617	21	32	9,169	7,649	19.9%
<b>Total liabilities</b>	<b>28,516</b>	<b>14,595</b>	<b>21</b>	<b>32</b>	<b>28,537</b>	<b>14,627</b>	<b>95.1%</b>
Net assets							
Invested in capital assets, net of related debt	11,028	9,708	128	123	11,156	9,831	13.5%
Restricted	664	458	-	-	664	458	45.0%
Unrestricted	1,607	1,425	190	178	1,797	1,603	12.1%
<b>Total net assets</b>	<b>\$ 13,299</b>	<b>11,591</b>	<b>318</b>	<b>301</b>	<b>13,617</b>	<b>11,892</b>	<b>14.5%</b>

The District's combined net assets increased by 14.5% from \$11,892,000 to \$13,617,000. A significant portion of this increase is due to the sale of revenue bonds and general obligation bonds during the 2004-2005 school year.

**Changes in net assets** – Figure A-4 shows the changes in net assets for the year ended June 30, 2005.

<b>Figure A-4</b>			
<b>Changes in Net Assets</b>			
<b>(expressed in thousands)</b>			
	<b>Govern-mental Activities</b>	<b>Business type Activities</b>	<b>Total School District</b>
Revenues:			
Program revenues:			
Charges for service and sales	\$ 1,051	656	1,707
Operating grants, contributions and restricted interest	1,634	210	1,844
General revenues:			
Property tax	6,819	-	6,819
Local option sales and services tax	925	-	925
Unrestricted states grants	6,790	-	6,790
Unrestricted investment earnings	111	2	113
Other	221	-	221
Total revenues	17,551	868	18,419
Expenses:			
Program expenses:			
Governmental activities:			
Instruction	10,042	-	10,042
Support services	4,715	-	4,715
Non-instructional programs	32	851	883
Other expenses	1,054	-	1,054
Total expenses	15,843	851	16,694
Change in net assets	\$ 1,708	17	1,725

## Governmental Activities

Property tax and unrestricted state grants account for 77.5 percent of the total governmental activities revenue. The District's expenses primarily relate to instruction and support services which account for 93 percent of the total expenses.

Revenues for governmental activities were \$17,550,869 and expenses were \$15,843,067, resulting in a net asset increase of \$1,707,802.

Figure A-5 presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

<b>Figure A-5</b>		
<b>Total and Net Cost of Governmental Activities</b>		
<b>(expressed in thousands)</b>		
	<b>Total</b>	<b>Net Cost</b>
	<b>Cost of</b>	<b>of</b>
	<b>Services</b>	<b>Services</b>
Instruction	\$ 10,042	8,079
Support services	4,715	4,580
Non-instructional programs	32	32
Other expenses	1,054	467
Totals	<u>\$ 15,843</u>	<u>13,158</u>

- The cost financed by users of the District's programs was \$1,051,306.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,634,012.
- The net cost of governmental activities was financed with \$6,819,171 in property taxes, \$6,789,718 in state foundation aid, \$924,927 in local option sales and services tax, \$111,136 in interest income and \$220,599 in other income.

## Business Type Activities

Revenues of the District's business type activities were \$868,313 and expenses were \$851,447. The District's business type activities include Kid's Club, Families First and the School Nutrition Fund. The School Nutrition Fund, however, accounts for 90 percent of the business type activity. Revenues of these activities were comprised of \$576,662 in charges for service, \$208,390 for federal and state reimbursements and investment income of \$2,569. The net assets increased by \$16,866.

## Financial Analysis of the District's Funds

As previously note, the Pella Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$16,301,584. This compares to \$2,078,892 last year, an increase of \$14,222,692.

## **Governmental Fund Highlights**

- The General Fund balance increased from \$1,713,705 to \$1,836,952, an increase of \$123,247.
- The Activity Fund balance increased from \$116,340 to \$136,965.
- The Management Fund balance increased \$26,749. This fund, however, continues to reflect a negative balance due to the obligation of our early retirement payments. What is not reflected in this balance is the corresponding annual levy that will cover the obligation. The levy is made annually by the Board of Education to cover the costs of our property/casualty insurance premiums, unemployment compensation and early retirement. While the levy cannot be presumed, and therefore not reflected in the financial statements, there is no reason to believe the Board will not levy the necessary dollars to cover this obligation on an annual basis.
- The Physical Plant & Equipment Levy (PEEL) Fund balance increased \$156,419, from \$157,034 to \$313,453.
- The Capital Projects Fund balance increased \$13,901,418, from \$123,671 to \$14,025,089. Revenue bonds of \$1,750,000 were sold August 24, 2004 and general obligation bonds of \$12,905,000 were sold June 1, 2005. The School Infrastructure Local Option Sales Tax generated \$924,927. We receive money from Jasper, Mahaska and Marion Counties. This was the first year of collection from Marion County.
- The Debt Service Fund decreased \$5,766, from \$95,265 to \$89,499. Property taxes were levied to cover the principle and interest payments of our three outstanding bond issues. We also received revenues from mobile home taxes, state sources and interest income.

## **Proprietary Fund Highlights**

The District's Proprietary Funds include the School Nutrition Fund, Kid's Club and Families First.

- The School Nutrition Fund balance increased \$7,090, from \$297,297 to \$304,387.
- Kid's Club is an after school program operated in our Webster Elementary building. The revenues and expenditures of this program are run through the District's financial accounting records. This fund experienced an increase of \$1,750, from \$2,412 to \$4,162.
- Families First is a community services oriented program. The revenues and expenditures of this program also run through the District's financial accounting records. This program is dependent upon contributions, grants and some user fees for its operation. The balance in this fund increased \$8,026, from \$1,438 to \$9,464.

## **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 46 and 47.

## Legal Budgetary Highlights

The District's total actual receipts were \$36,990 less than the total budgeted receipts, a variance of .2 %.

Total expenditures were \$1,861,702 less than budgeted, a variance of 9.11%. The District's practice when budgeting expenditures is to increase the expenditures by a higher than expected percentage. This should usually result in the certified budget being higher than the actual expenditures for a given year. Somewhat opposite of the revenue side, the District budgets toward the high side of expenditures, without compromising the integrity of the budget itself.

The District's budget was amended on April 25, 2005. Support services were increased from \$4,644,000 to \$4,710,000 and other expenditures were increased from \$3,163,247 to \$4,867,325. Other expenditures were increased due to the purchase of real estate totaling \$1,500,900.

## Capital Asset and Debt Administration

### Capital Assets

At June 30, 2005, the District had invested \$17,588,526, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, musical instruments, audio-visual equipment and transportation equipment (see Figure A-6). More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was nearly one million dollars.

<b>Figure A-6</b>							
<b>Capital Assets, net of Depreciation</b>							
<b>(expressed in thousands)</b>							
	<b>Governmental</b>		<b>Business Type</b>		<b>Total School District</b>		<b>Total</b>
	<b>Activities</b>		<b>activities</b>		<b>June 30,</b>		<b>Change</b>
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2004-2005</b>
Land	\$ 1,692	191	-	-	1,692	191	785.9%
Buildings	13,074	13,333	-	-	13,074	13,333	-1.9%
Improvements other than buildings	356	353	-	-	356	353	0.8%
Furniture and equipment	2,338	2,451	128	123	2,466	2,574	-4.2%
Totals	\$ 17,460	16,328	128	123	17,588	16,451	6.9%

The original cost of the District's capital assets was \$31,403,337. Governmental funds account for \$30,665,319 with the remaining \$738,018 in the School Nutrition Fund.

The District purchased 50 acres of land at a cost of \$1,500,900. Other major improvements this year included roof repair at the Middle School, a new phone installation at the High School, new dugouts at the baseball diamond and continued technology upgrades at all of our buildings.

### Long-Term Debt

At June 30, 2005, the District had \$20,625,239 in general obligation bonds and other long-term debt. This represents an increase of approximately 195.6 percent from last year. This significant increase is due to the sale of \$12,905,000 general obligation bonds and \$1,750,000 revenue bonds (see Figure A-7). More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

<b>Figure A-7</b> <b>Outstanding Long-Term Obligations</b> <b>(expressed in thousands)</b>		
<b>June 30,</b>		
	<b>2005</b>	<b>2004</b>
		<b>Change</b>
Instruction	\$ 20,280	6,620
Non-instructional programs	345	358
Totals	\$ 20,625	6,978

The District had total outstanding bonded indebtedness at June 30, 2005 of \$18,680,000. This represents four separate bond issues. Two of these issues will be retired in FY09, one in FY13 and the most recent one in FY25. The District also had outstanding revenue bonds of \$1,600,000 at June 30, 2005 that will be retired in FY14.

The District also has a long-term debt obligation for its early retirement plan, which was \$345,239 at June 30, 2005. Retiring employees are currently allowed to receive payments until they reach age 65. This obligation is paid from the District's Management Fund.

## Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- The District sold revenue bonds of \$1,750,000 on August 24, 2004. These proceeds were used for the purchase of 50 acres of land. This land will be the site of our new elementary building and is large enough to house all of our foreseeable future building needs. The site was chosen near existing buildings, which will allow us to maintain a central campus philosophy, an important consideration for our Board of Education.
- Voters in the District approved a \$12,905,000 general obligation bond issue on February 15, 2005. This bond issue passed with a 78% affirmative vote. These bonds were sold on April 11, 2005 at a total interest cost of 4.477760%. Proceeds were received June 1, 2005. A portion of these proceeds, \$12,500,000, were subsequently invested at an interest rate of 4.40%. The District intends to use a portion of the School Infrastructure Local Option Sales Tax revenues to maintain a debt service tax levy of \$2.24 per thousand, which was the amount in place prior to the bond issue vote. Following the successful passage of this bond issue, the District has agreed to sell the existing elementary building and property, once vacated, to Central College for \$426,000.
- The District participated in the Iowa Schools Employee Benefits Association, a self-funded health insurance program, from July 1, 1999 to June 30, 2004. Effective July 1, 2004, ISEBA changed from a self-funded program to a fully-insured program through Wellmark Blue Cross Blue Shield. The District chose to leave ISEBA at this point in time and secured health insurance from another carrier. However, run-out claims from the self-funded program resulted in an assessment to all member schools. Our assessment was \$150,000. These assessments are currently being litigated and it is our belief that the final settlement will be 50% of the original amount.
- The District's transportation fleet is in good shape overall. Each year, either two busses or one bus and a support vehicle are purchased to keep the fleet updated. The General Fund has been the source of revenue for these purchases.
- Pella is home to the corporate headquarters of Pella Corporation and Vermeer Manufacturing. Both companies seem to be performing well and the general economy of Pella continues to be strong. The property tax base remains strong and housing starts have been good.

- The Pella Community School District is very unique in that it does not have a collective bargaining agreement with its teachers. There continues to be a very amicable relationship between management and labor.

## **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Jon E. Miller, Board Secretary / Business Manager, Pella Community School District, 210 E. University, P.O. Box 468, Pella, Iowa, 50219.



## **Basic Financial Statements**

**Pella Community School District**

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
June 30, 2005

	Governmental Activities	Business Type Activities	Total	Component Units
<b>Assets</b>				
Cash and cash equivalents				
Revenue bond reserve	\$ 176,957	-	176,957	-
Other	\$ 17,224,383	188,021	17,412,404	61,504
Receivables:				
Property tax:				
Delinquent	47,076	-	47,076	-
Succeeding year	6,480,367	-	6,480,367	-
Accounts	2,479	-	2,479	-
Due from other governments	315,267	-	315,267	-
Inventories	30,644	23,003	53,647	-
Prepaid expense	77,689	-	77,689	-
Capital assets, net of accumulated depreciation (note 4)	17,460,167	128,359	17,588,526	-
<b>Total assets</b>	<b>41,815,029</b>	<b>339,383</b>	<b>42,154,412</b>	<b>61,504</b>
<b>Liabilities</b>				
Accounts payable	250,620	1,146	251,766	-
Salaries and benefits payable	1,060,173	20,224	1,080,397	-
Other payable	75,000	-	75,000	20,000
Accrued interest payable	24,281	-	24,281	-
Deferred revenue:				
Succeeding year property tax	6,480,367	-	6,480,367	-
Long-term liabilities (note 5):				
Portion due within one year:				
General obligation bonds payable	915,000	-	915,000	-
Revenue bonds payable	155,000	-	155,000	-
Early retirement	187,118	-	187,118	-
Portion due after one year:				
General obligation bonds payable	17,765,000	-	17,765,000	-
Revenue bonds payable	1,445,000	-	1,445,000	-
Early retirement	158,121	-	158,121	-
<b>Total liabilities</b>	<b>28,515,680</b>	<b>21,370</b>	<b>28,537,050</b>	<b>20,000</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	11,028,299	128,359	11,156,658	-
Restricted for:				
Physical plant and equipment levy	313,453	-	313,453	-
Capital projects	176,957	-	176,957	-
Debt service	65,218	-	65,218	-
Other	108,333	-	108,333	-
Unrestricted	1,607,089	189,654	1,796,743	41,504
<b>Total net assets</b>	<b>\$ 13,299,349</b>	<b>318,013</b>	<b>13,617,362</b>	<b>41,504</b>

See notes to financial statements.

## Exhibit B

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Functions/Programs</b>			
Governmental activities:			
Instruction:			
Regular instruction	\$ 6,641,766	352,747	480,459
Special instruction	2,208,908	333,342	376,919
Other instruction	1,191,456	352,846	67,133
	10,042,130	1,038,935	924,511
Support Service:			
Student services	330,759	-	-
Instructional staff services	854,401	-	-
Administration services	1,305,775	-	-
Operating and maintenance of plant services	1,497,561	12,371	123,269
Transportation services	726,771	-	-
	4,715,267	12,371	123,269
Non-instructional programs	32,020	-	-
Other expenditures:			
Facilities acquisition	7,580	-	-
Long-term debt interest	382,792	-	-
AEA flowthrough	586,232	-	586,232
Depreciation (unallocated)*	77,046	-	-
	1,053,650	-	586,232
Total governmental activities	15,843,067	1,051,306	1,634,012
Business type activities:			
Non-instructional programs:			
Community daycare	35,953	37,703	-
Community services	34,963	41,863	1,126
Nutrition services	780,531	576,662	208,390
Total business type activities	851,447	656,228	209,516
Total primary government	\$ 16,694,514	1,707,534	1,843,528
Component Units:			
Program expenses	\$ 17,576	-	25,214
Management and general expenses	2,026	-	-
Fundraising expenses	38,073	-	87,975
Total component units	\$ 57,675	-	113,189

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business Type Activities	Total	Component Units
(5,808,560)	-	(5,808,560)	-
(1,498,647)	-	(1,498,647)	-
(771,477)	-	(771,477)	-
(8,078,684)	-	(8,078,684)	-
(330,759)	-	(330,759)	-
(854,401)	-	(854,401)	-
(1,305,775)	-	(1,305,775)	-
(1,361,921)	-	(1,361,921)	-
(726,771)	-	(726,771)	-
(4,579,627)	-	(4,579,627)	-
(32,020)	-	(32,020)	-
(7,580)	-	(7,580)	-
(382,792)	-	(382,792)	-
-	-	-	-
(77,046)	-	(77,046)	-
(467,418)	-	(467,418)	-
(13,157,749)	-	(13,157,749)	-
-	1,750	1,750	-
-	8,026	8,026	-
-	4,521	4,521	-
-	14,297	14,297	-
(13,157,749)	14,297	(13,143,452)	-
-	-	-	7,638
-	-	-	(2,026)
-	-	-	49,902
-	-	-	55,514

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2005

	Program Revenues		
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest
<b>Totals continued from previous pages</b>	<b>\$ 16,694,514</b>	<b>1,707,534</b>	<b>1,843,528</b>
General Revenues:			
Property tax levied for:			
General purposes			
Debt service			
Capital outlay			
Local option sales and services tax			
Unrestricted state grants			
Unrestricted investment earnings			
Other			
Gifts to Pella Community School District			
Total general revenues			
Change in net assets			
Net assets beginning of year			
Prior period adjustment			
Net assets end of year			

\* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

Exhibit B

Net (Expense) Revenue and Changes in Net Assets			
Governmental Activities	Business Type Activities	Total	Component Units
(13,157,749)	14,297	(13,143,452)	55,514
5,128,792	-	5,128,792	-
1,169,871	-	1,169,871	-
520,508	-	520,508	-
924,927	-	924,927	-
6,789,718	-	6,789,718	-
111,136	2,569	113,705	301
220,599	-	220,599	(550)
-	-	-	(95,398)
14,865,551	2,569	14,868,120	(95,647)
1,707,802	16,866	1,724,668	(40,133)
11,485,440	301,147	11,786,587	81,637
106,107	-	106,107	-
\$ 13,299,349	318,013	13,617,362	41,504

## Exhibit C

PELLA COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
<b>Assets</b>					
Cash and pooled investments:					
Revenue bond reserve	\$ -	-	176,957	-	176,957
Other	2,777,680	81,852	13,834,350	530,501	17,224,383
Receivables:					
Property tax:					
Current year delinquent	32,507	8,147	-	6,422	47,076
Succeeding year	4,408,488	1,167,273	-	904,606	6,480,367
Accounts	2,479	-	-	-	2,479
Due from other governments	194,505	-	120,762	-	315,267
Inventories	30,644	-	-	-	30,644
Prepaid expenses	72,709	-	-	4,980	77,689
<b>Total assets</b>	<b>\$ 7,519,012</b>	<b>1,257,272</b>	<b>14,132,069</b>	<b>1,446,509</b>	<b>24,354,862</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	\$ 138,593	500	106,980	4,547	250,620
Salaries and benefits payable	1,059,979	-	-	194	1,060,173
Other payable	75,000	-	-	-	75,000
Deferred revenue:					
Succeeding year property tax	4,408,488	1,167,273	-	904,606	6,480,367
Early retirement payable	-	-	-	187,118	187,118
<b>Total liabilities</b>	<b>5,682,060</b>	<b>1,167,773</b>	<b>106,980</b>	<b>1,096,465</b>	<b>8,053,278</b>
Fund balances:					
Reserved for:					
Inventories	30,644	-	-	-	30,644
Prepaid expense	72,709	-	-	4,980	77,689
Debt service	-	89,499	-	-	89,499
Unreserved:					
Designated for special purposes by the Board	225,000	-	-	-	225,000
Undesignated	1,508,599	-	14,025,089	345,064	16,103,752
<b>Total fund balances</b>	<b>1,836,952</b>	<b>89,499</b>	<b>14,025,089</b>	<b>350,044</b>	<b>16,301,584</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,519,012</b>	<b>1,257,272</b>	<b>14,132,069</b>	<b>1,446,509</b>	<b>24,354,862</b>

See notes to financial statements.



PELLA COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
June 30, 2005

**Total fund balances of governmental funds (Exhibit C)** \$ 16,301,584

***Amounts reported for governmental activities in the  
statement of net assets are different because:***

Capital assets used in governmental activities are not financial  
resources and, therefore, are not reported as assets in the  
governmental funds. 17,460,167

Accrued interest payable on long-term liabilities is not due and  
payable in the current period and, therefore, is not reported as a  
liability in the governmental funds. (24,281)

Long-term liabilities, including bonds payable and early  
retirement, are not due and payable in the current period and,  
therefore, are not reported as liabilities in the governmental  
funds. (20,438,121)

**Net assets of governmental activities (Exhibit A)** \$ 13,299,349

See notes to financial statements.

## Exhibit E

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
Year ended June 30, 2005

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
Revenues:					
Local sources:					
Local tax	\$ 4,755,591	1,169,871	924,927	893,709	7,744,098
Tuition	601,419	-	-	-	601,419
Other	246,222	1,000	33,848	474,429	755,499
Intermediate sources	15,000	-	-	-	15,000
State sources	7,998,482	536	-	430	7,999,448
Federal sources	430,845	-	-	-	430,845
Total revenues	14,047,559	1,171,407	958,775	1,368,568	17,546,309
Expenditures:					
Current:					
Instruction:					
Regular instruction	5,941,865	-	-	333,945	6,275,810
Special instruction	2,183,808	-	-	-	2,183,808
Other instruction	827,808	-	-	379,255	1,207,063
	8,953,481	-	-	713,200	9,666,681
Support services:					
Student services	322,470	-	-	3,000	325,470
Instructional staff services	791,337	-	-	3,000	794,337
Administration services	1,243,594	-	-	41,143	1,284,737
Operation and maintenance of plant services	1,388,129	-	-	101,611	1,489,740
Transportation services	643,629	-	-	50,064	693,693
	4,389,159	-	-	198,818	4,587,977
Non-instructional programs	-	-	-	296	296
Other expenditures:					
Facilities acquisition	-	-	1,508,480	252,461	1,760,941
Long-term debt:					
Principal	-	995,000	-	-	995,000
Interest and fiscal charges	-	386,050	-	-	386,050
AEA flowthrough	586,232	-	-	-	586,232
	586,232	1,381,050	1,508,480	252,461	3,728,223
Total expenditures	13,928,872	1,381,050	1,508,480	1,164,775	17,983,177
Excess of revenues over expenditures	118,687	(209,643)	(549,705)	203,793	(436,868)
Other financing sources (uses):					
Transfers in (out)	-	203,877	(203,877)	-	-
General obligation bonds issued	-	-	12,905,000	-	12,905,000
Revenue bonds issued	-	-	1,750,000	-	1,750,000
Sale of equipment	4,560	-	-	-	4,560
Total other financing sources	4,560	203,877	14,451,123	-	14,659,560
Net change in fund balances	123,247	(5,766)	13,901,418	203,793	14,222,692
Fund balances beginning of year	1,607,598	95,265	123,671	146,251	1,972,785
Prior period adjustment	106,107	-	-	-	106,107
Fund balances end of year	\$ 1,836,952	89,499	14,025,089	350,044	16,301,584

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 Year ended June 30, 2005

**Net change in fund balances - total governmental funds (Exhibit E)** \$ 14,222,692

***Amounts reported for governmental activities in the  
 statement of activities are different because:***

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 2,121,330	
Depreciation expense	<u>(989,546)</u>	1,131,784

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.

995,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

3,258

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	10,068
------------------	--------

Proceeds of long-term debt provide current financial resources to governmental funds but increase long-term liabilities in the Statement of Net Assets.

(14,655,000)

**Change in net assets of governmental activities (Exhibit B)**

\$ 1,707,802

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2005

	<u>Enterprise Funds</u>
<b>Assets</b>	
Cash and investments	\$ 188,021
Inventories	23,003
Property and equipment:	
Machinery and equipment	738,018
Accumulated depreciation	<u>(609,659)</u>
<b>Total assets</b>	<u>339,383</u>
<b>Liabilities and Net Assets</b>	
Liabilities:	
Accounts payable	1,146
Salaries and benefits payable	<u>20,224</u>
Total liabilities	<u>21,370</u>
Net Assets:	
Invested in capital assets, net of related debt	128,359
Unrestricted	<u>189,654</u>
<b>Total net assets</b>	<u>\$ 318,013</u>

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
Year Ended June 30, 2005

	<u>Enterprise Funds</u>
Operating revenue:	
Local sources:	
Operating revenues	<u>\$ 656,228</u>
Operating expenses:	
Non-instructional programs:	
Community service operations:	
Other	70,916
Food service operations:	
Depreciation	18,068
Other	762,463
Total operating expenses	<u>851,447</u>
Operating loss	<u>(195,219)</u>
Non-operating revenue:	
Local sources	2,569
State sources	11,024
Federal sources	198,492
Total non-operating revenue	<u>212,085</u>
Change in net assets	16,866
Net assets beginning of year	<u>301,147</u>
Net assets end of year	<u><u>\$ 318,013</u></u>

See notes to financial statements.

## Exhibit I

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS - PROPRIETARY FUND TYPE  
Year Ended June 30, 2005

	Enterprise Funds
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 576,662
Cash received from daycare service tuition and fees	80,666
Cash payments to employees for services	(461,571)
Cash payments to suppliers for goods or services	(336,619)
Net cash used in operating activities	<u>(140,862)</u>
Cash flows from non-capital financing activities:	
State grants received	11,024
Federal grants received	159,367
Net cash provided by non-capital financing activities	<u>170,391</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	<u>(23,081)</u>
Cash flows from investing activities:	
Interest on investments	<u>2,569</u>
Net cash used by investing activities	<u>2,569</u>
Net increase in cash and cash equivalents	9,017
Cash and cash equivalents at beginning of year	<u>79,004</u>
Cash and cash equivalents at end of year	<u><u>\$ 88,021</u></u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>	
Operating loss	\$ (195,219)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Commodities	39,125
Depreciation	18,068
Decrease in inventories	6,509
Decrease in other assets	1,100
(Decrease) in accounts payable	(627)
(Decrease) in salaries and benefits payable	(9,818)
Net cash used in operating activities	<u><u>\$ (140,862)</u></u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>	
Current assets:	
Cash and investments	\$ 188,021
Less items not meeting definition of cash equivalents:	
Certificates of deposit	(100,000)
Cash and cash equivalents at year end	<u><u>\$ 88,021</u></u>

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2005, the District received federal commodities valued at \$39,125.

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
June 30, 2005

	Private Purpose Trust	
	Scholarship	Agency
<b>Assets</b>		
Cash and pooled investments	\$ 51,079	49,933
<b>Total assets</b>	51,079	49,933
<b>Liabilities</b>		
Accounts payable	-	49,933
<b>Total liabilities</b>	-	49,933
<b>Net assets</b>		
Reserved for scholarships	51,079	-
<b>Total net assets</b>	\$ 51,079	-

See notes to financial statements.

Exhibit K

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
Year Ended June 30, 2004

	Private Purpose Trust
	Scholarship
Revenues:	
Local sources:	
Interest	870
Total revenues	870
Expenditures:	
Instruction:	
Other	1,000
Total expenditures	1,000
Change in net assets	(130)
Net assets beginning of year	51,209
Net assets end of year	\$ 51,079

See notes to financial statements.



PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS - COMPONENT UNITS  
June 30, 2005

	Pella Community Parent Teacher School Athletic Organization Booster Club			Total
<b>Assets</b>				
Cash and pooled investments	\$	34,833	26,671	61,504
<b>Total assets</b>		34,833	26,671	61,504
<b>Liabilities</b>				
Note payable		-	20,000	20,000
<b>Total liabilities</b>		-	20,000	20,000
<b>Net assets</b>				
Unrestricted		34,833	6,671	41,504
<b>Total net assets</b>	\$	34,833	6,671	41,504

See notes to financial statements.

PELLA COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS - COMPONENT UNITS  
June 30, 2005

	Parent Teacher Organization	Pella Community School Athletic Booster Club	Total
Operating revenues:			
Contributions	\$ 12,444	3,685	16,129
Membership dues	-	9,085	9,085
Fundraising	65,310	22,665	87,975
Total operating revenues	77,754	35,435	113,189
Operating expenses:			
Program expenses	17,204	372	17,576
Management and general expenses	709	1,317	2,026
Fundraising expenses	35,987	2,086	38,073
Total operating expenses	53,900	3,775	57,675
Operating income	23,854	31,660	55,514
Non-operating revenues (expenses):			
Interest income	26	275	301
Interest expense	-	(550)	(550)
Gifts to Pella Community School District	(14,019)	(81,379)	(95,398)
Net non-operating expenses	(13,993)	(81,654)	(95,647)
Changes in net assets	9,861	(49,994)	(40,133)
Net assets beginning of year	24,972	56,665	81,637
Net assets end of year	\$ 34,833	6,671	41,504

See notes to financial statements.

## PELLA COMMUNITY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2005

#### (1) Summary of Significant Accounting Policies

Pella Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the City of Pella, Iowa. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

##### A. Reporting Entity

For financial reporting purposes, Pella Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

These financial statements present Pella Community School District (the primary government) and its component units. The components units discussed below are included in the District's reporting entity because of the significance of their operational or financial relationships with the District.

##### Discrete Component Units

Pella Parent-Teacher Organization is a legally separate not-for-profit entity. Parent Teacher Organization was established for the purpose of providing additional educational and recreational services for the benefit of Pella Community School District. Although the District does not control the timing or amount of receipts from Parent Teacher Organization, the majority of the resources that are held are used for the benefit of Pella Community School District.

Pella Community School Athletic Booster Club is a legally separate not-for-profit entity. Pella Community School Athletic Booster Club was established for the purpose of maintaining and developing the athletic facilities and departments of Pella Community School District. Although the District does not control the timing or amount of receipts from the Pella Community School Athletic Booster Club, the majority of the resources that are held are used for the benefit of Pella Community School District.

Jointly Governed Organizations – The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marion County Assessor's Conference Board.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

B. Basis of Presentation

Government-wide financial statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the Government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds consist of three Enterprise funds: School Nutrition, Kids Club, and Families First. These funds are used to account for the food service operations, child after-school operations and community-family service operations of the District.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The Government-wide proprietary and fiduciary fund financial statements are reported using the "economic resources measurement focus" and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary funds of the District apply all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents – The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable – Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the Government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2004.

Due from Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expense when consumed rather than when purchased or received.

Capital Assets – Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business type activities columns in the Government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

# PELLA COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2005

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,000
Buildings	1,000
Improvements other than buildings	1,000
Furniture and equipment:	
School Nutrition Fund equipment	500
Other furniture and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities – In the Government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances – In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets – In the Government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

**(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2005 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk. The District's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the District.

**(3) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	Capital Projects	<u>\$203,877</u>

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.



# PELLA COMMUNITY SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS June 30, 2005

### (4) Capital Assets

Capital assets activity for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 191,000	1,500,900	-	1,691,900
Construction in progress	-	-	-	-
Total capital assets not being depreciated	191,000	1,500,900	-	1,691,900
Capital assets being depreciated:				
Buildings	19,056,435	165,930	-	19,222,365
Improvements other than buildings	708,761	31,139	-	739,900
Furniture and equipment	8,623,794	423,361	36,001	9,011,154
Total capital assets being depreciated	28,388,990	620,430	36,001	28,973,419
Less accumulated depreciation for:				
Buildings	5,723,035	425,129	-	6,148,164
Improvements other than buildings	356,011	28,075	-	384,086
Furniture and equipment	6,172,561	500,341	-	6,672,902
Total accumulated depreciation	12,251,607	953,545	-	13,205,152
Total capital assets being depreciated, net	16,137,383	(333,115)	36,001	15,768,267
Governmental activities capital assets, net	\$ 16,328,383	1,167,785	36,001	17,460,167
<b>Business type activities:</b>				
Furniture and equipment	\$ 714,937	23,081	-	738,018
Less accumulated depreciation	591,591	18,068	-	609,659
Business type activities capital assets, net	\$ 123,346	5,013	-	128,359

Depreciation expense was charged by the District as follows:

#### Governmental activities:

##### Instruction:

Regular	\$ 478,646
Special	36,256
Other	22,660

##### Support services:

Student services	5,289
Instructional staff	60,064
Administration	4,582
Operation and maintenance of plant	41,066
Transportation	157,693
Central Support	38,520
Non-instructional programs	31,724

Unallocated depreciation

Total governmental activities depreciation expense	\$ 953,545
--	------------

#### Business type activities:

Food services	\$ 18,068
---------------	-----------

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

**(5) Long-term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2005 are summarized as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 6,620,000	12,905,000	845,000	18,680,000	915,000
Revenue bonds	-	1,750,000	150,000	1,600,000	155,000
Early retirement	357,785	155,172	167,718	345,239	187,118
	<u>\$ 6,977,785</u>	<u>14,810,172</u>	<u>1,162,718</u>	<u>20,625,239</u>	<u>1,257,118</u>

Early Retirement

The District offers a voluntary early retirement plan to all school employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is based on a percentage of the employee's final year's salary. The percentage used for calculation is based on years of service to the District. The percentage varies from 38% for 10 years of service to 57% for 15 or more years of experience. Early retirement benefits paid during the year ended June 30, 2005 totaled \$167,718.

General Obligation Bonds Payable

Details of the District's June 30, 2005 general obligation bonded indebtedness are as follows:

Bond Issue of June 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2006	5.05%	\$ 380,000	194,348	574,348
2007	5.20%	400,000	175,157	575,157
2008	5.25%	420,000	154,358	574,358
2009	5.30%	440,000	132,307	572,307
2010	5.38%	465,000	108,988	573,988
2011	5.38%	490,000	83,994	573,994
2012	5.38%	515,000	57,656	572,656
2013	5.50%	545,000	29,975	574,975
Subtotal		<u>3,655,000</u>	<u>936,783</u>	<u>4,591,783</u>

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Bond Issue of June 1, 2005				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2006	3.50%	\$ 40,000	581,625	621,625
2007	3.50%	40,000	580,225	620,225
2008	3.50%	40,000	578,825	618,825
2009	3.50%	50,000	577,425	627,425
2010	4.00%	510,000	575,675	1,085,675
2011	4.00%	535,000	555,275	1,090,275
2012	4.00%	560,000	533,875	1,093,875
2013	4.00%	590,000	511,475	1,101,475
2014	4.00%	680,000	487,875	1,167,875
2015	4.00%	715,000	460,675	1,175,675
2016	4.00%	750,000	432,075	1,182,075
2017	4.50%	775,000	402,075	1,177,075
2018	4.50%	810,000	367,200	1,177,200
2019	4.50%	850,000	330,750	1,180,750
2020	5.00%	885,000	292,500	1,177,500
2021	5.00%	925,000	248,250	1,173,250
2022	5.00%	970,000	202,000	1,172,000
2023	5.00%	1,015,000	153,500	1,168,500
2024	5.00%	1,065,000	102,750	1,167,750
2025	4.50%	1,100,000	49,500	1,149,500
Subtotal		12,905,000	8,023,550	20,928,550

Refunding Bond Issue of November 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2006	4.60%	\$ 215,000	43,505	258,505
2007	4.70%	225,000	33,615	258,615
2008	4.80%	235,000	23,040	258,040
2009	4.90%	240,000	11,760	251,760
Subtotal		915,000	111,920	1,026,920

Refunding Bond Issue of March 1, 1998				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2006	4.35%	\$ 280,000	53,523	333,523
2007	4.40%	290,000	41,343	331,343
2008	4.45%	310,000	28,583	338,583
2009	4.55%	325,000	14,787	339,787
Subtotal		1,205,000	138,236	1,343,236

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS  
June 30, 2005

Total			
Year ending June 30,	Principal	Interest	Total
2006	\$ 915,000	873,001	1,788,001
2007	955,000	830,340	1,785,340
2008	1,005,000	784,806	1,789,806
2009	1,055,000	736,279	1,791,279
2010	975,000	684,663	1,659,663
2011	1,025,000	639,269	1,664,269
2012	1,075,000	591,531	1,666,531
2013	1,135,000	541,450	1,676,450
2014	680,000	487,875	1,167,875
2015	715,000	460,675	1,175,675
2016	750,000	432,075	1,182,075
2017	775,000	402,075	1,177,075
2018	810,000	367,200	1,177,200
2019	850,000	330,750	1,180,750
2020	885,000	292,500	1,177,500
2021	925,000	248,250	1,173,250
2022	970,000	202,000	1,172,000
2023	1,015,000	153,500	1,168,500
2024	1,065,000	102,750	1,167,750
2025	1,100,000	49,500	1,149,500
Total	<u>\$ 18,680,000</u>	<u>9,210,489</u>	<u>27,890,489</u>

Revenue Bonds Payable

Details of the District's June 30, 2005 local option sales and services tax revenue bonded indebtedness are as follows:

Bond Issue of June 1, 1997				
Year ending June 30,	Interest Rates	Principal	Interest	Total
2006	3.00%	\$ 155,000	55,775	210,775
2007	3.00%	160,000	51,125	211,125
2008	3.25%	165,000	46,325	211,325
2009	3.50%	170,000	40,963	210,963
2010	3.60%	175,000	35,012	210,012
2011	3.60%	180,000	28,713	208,713
2012	3.60%	190,000	22,232	212,232
2013	3.75%	200,000	15,393	215,393
2014	3.85%	205,000	7,892	212,892
Total		<u>\$ 1,600,000</u>	<u>303,430</u>	<u>1,903,430</u>

The local option sales and services tax revenue bonds were issued for the purpose of defraying a portion of the cost of school infrastructure. The bonds are payable solely from the proceeds of the local option sales and services tax revenues received by the District. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District.

## PELLA COMMUNITY SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

June 30, 2005

The resolution providing for the issuance of the local option sales and services tax revenue bonds includes the following provisions:

- a) \$175,000 of the proceeds from the issuance of the revenue bonds shall be deposited to the Reserve Account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the Sinking Account. The balance of the proceeds shall be deposited to the Project Account.
- b) All proceeds from the local option sales and services tax shall be placed in a Revenue Account.
- c) Monies in the Revenue Account shall be disbursed to make deposits into a Sinking Account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- d) Any monies remaining in the Revenue Account after the required transfer to the Sinking Account may be transferred to the Project Account to be used for any lawful purpose.

The total amount of interest costs incurred and charged to expense for the fiscal year ended June 30, 2005 was \$381,092.

#### **(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by state statute. The District's contribution to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$540,101, \$524,044, and \$503,123, respectively, equal to the required contributions for each year.

#### **(7) Risk Management**

Pella Community School District was a member in the Iowa School Employees Benefits Association (ISEBA), an Iowa Code Chapter 28E organization, from July 1, 1990 through June 30, 2004. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. ISEBA was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision, and prescription drugs.

On July 1, 2004, the Association converted from a self-funded pool to a fully insured pool covered by Wellmark Blue Cross Blue Shield of Iowa. In December, 2004, ISEBA issued assessments necessary to cover run-out claims received when the program converted from self-insured to fully-insured coverage. ISEBA is recovering the shortfall through a combination of assessments, deficit recovery charges and administrative cost reduction measures. Members that terminated from ISEBA on June 30, 2004 received an assessment in December, 2004 which is due July 1, 2005. The total assessment for terminated members is approximately \$3.9 million. The District's share of this assessment was \$150,000. The District is contesting this assessment and the matter has been scheduled for mediation. The District estimates the final settlement will amount to half of the assessment, or \$75,000, and has recorded that amount as a liability as of June 30, 2005 and has set up \$75,000 as an unreserved, designated for special purposes fund balance in the general fund.

PELLA COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Pella Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$586,232 for the year ended June 30, 2005 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(9) Deficit Fund Balance**

The Management Fund had a deficit balance of \$100,374 as of June 30, 2005.

**(10) Construction Commitment**

At June 30, 2005, the District had issued general obligation bonds totaling \$12,905,000. These funds are to be used to fund projects including a Jefferson Elementary parking lot reconfiguration, a new elementary school building to be built on University Street, high school building additions, and remodeling projects at Lincoln Elementary, Jefferson Elementary and the Middle School.

**(11) Prior Period Adjustment**

The District discovered that prior year accounts payable in the General Fund was overstated by \$106,107. The effect of this adjustment is a prior period adjustment of \$106,107 to beginning fund balance and net assets.

### **Required Supplementary Information**

PELLA COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES  
IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL  
FUNDS AND PROPRIETARY FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
Year Ended June 30, 2005

	Governmental Fund Types- Actual	Proprietary Fund Type- Actual
Revenues:		
Local sources	\$ 8,951,223	659,897
Intermediate sources	15,000	-
State sources	7,999,032	11,024
Federal sources	432,531	159,367
Total revenues	<u>17,397,786</u>	<u>830,288</u>
Expenditures:		
Instruction	9,527,022	-
Support services	4,587,977	-
Noninstructional programs	296	821,271
Other expenditures	3,640,057	-
Total expenditures	<u>17,755,352</u>	<u>821,271</u>
Excess (deficiency) of revenues over (under) expenditures	(357,566)	9,017
Other financing sources, net	<u>14,659,560</u>	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures	14,301,994	9,017
Balances beginning of year	<u>3,099,346</u>	<u>179,004</u>
Balances end of year	<u><u>\$ 17,401,340</u></u>	<u><u>188,021</u></u>

See accompanying independent auditor's report.



Total Actual	Budgeted Amounts		Final to Actual Variance- Positive (Negative)
	Original	Final	
9,611,120	9,627,305	9,627,305	(16,185)
15,000	15,000	15,000	-
8,010,056	8,111,259	8,111,259	(101,203)
591,898	511,500	511,500	80,398
18,228,074	18,265,064	18,265,064	(36,990)
9,527,022	9,971,000	9,971,000	443,978
4,587,977	4,644,000	4,710,000	122,023
821,567	890,000	890,000	68,433
3,640,057	3,163,247	4,867,325	1,227,268
18,576,623	18,668,247	20,438,325	1,861,702
(348,549)	(403,183)	(2,173,261)	1,824,712
14,659,560	-	1,735,000	12,924,560
14,311,011	(403,183)	(438,261)	14,749,272
3,278,350	2,859,971	2,859,971	418,379
17,589,361	2,456,788	2,421,710	15,167,651

PELLA COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE - BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
Year ended June 30, 2005

	Governmental Fund Types		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 17,397,786	148,523	17,546,309
Expenditures	17,755,352	227,825	17,983,177
Net	(357,566)	(79,302)	(436,868)
Other financing sources	14,659,560	-	14,659,560
Beginning fund balances	3,099,346	(1,020,454)	2,078,892
Ending fund balances	<u>\$ 17,401,340</u>	<u>(1,099,756)</u>	<u>16,301,584</u>

	Proprietary Fund Type		
	Enterprise		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 830,288	38,025	868,313
Expenses	821,271	30,176	851,447
Net	9,017	7,849	16,866
Beginning net assets	179,004	156,987	301,147
Ending net assets	<u>\$ 188,021</u>	<u>164,836</u>	<u>318,013</u>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
Year ended June 30, 2005

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2005, disbursements did not exceed the amounts budgeted.

### **Other Supplementary Information**

PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR SPECIAL REVENUE FUNDS  
June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
<b>Assets</b>				
Cash and pooled investments	\$ 79,106	141,207	310,188	530,501
Receivables:				
Property tax:				
Current year delinquent	2,797	-	3,625	6,422
Succeeding year	375,000	-	529,606	904,606
Prepaid expenses	4,980	-	-	4,980
<b>Total assets</b>	<b>\$ 461,883</b>	<b>141,207</b>	<b>843,419</b>	<b>1,446,509</b>
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Accounts payable	\$ 139	4,048	360	4,547
Salaries and benefits payable	-	194		194
Early retirement	187,118	-	-	187,118
Deferred revenue:				
Succeeding year property tax	375,000	-	529,606	904,606
Total liabilities	562,257	4,242	529,966	1,096,465
Fund balances:				
Reserved for:				
Prepaid expense	4,980	-	-	4,980
Unreserved, undesignated	(105,354)	136,965	313,453	345,064
Total fund balances	(100,374)	136,965	313,453	350,044
<b>Total liabilities and fund equity</b>	<b>\$ 461,883</b>	<b>\$ 141,207</b>	<b>\$ 843,419</b>	<b>\$ 1,446,509</b>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS  
 Year Ended June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Revenues:				
Local sources:				
Local tax:				
Property tax	\$ 366,881	-	512,789	879,670
Utility tax replacement excise tax	5,904	-	7,212	13,116
Mobile home tax	416	-	507	923
	373,201	-	520,508	893,709
Other local sources:				
Interest on investments	-	1,945	1,000	2,945
Student activities	-	352,846	-	352,846
Other	8,003	45,089	65,546	118,638
	8,003	399,880	66,546	474,429
	381,204	399,880	587,054	1,368,138
State sources:				
Revenue in lieu of taxes - military credit	191	-	239	430
Total revenues	381,395	399,880	587,293	1,368,568
Expenditures:				
Instruction:				
Regular instruction:				
Salaries	152,904	-	-	152,904
Benefits	43,064	-	-	43,064
Services	23,032	-	-	23,032
Property	-	-	114,945	114,945
	219,000	-	114,945	333,945
Co-curricular instruction:				
Salaries	-	5,983	-	5,983
Benefits	-	591	-	591
Services	-	182,217	-	182,217
Supplies	-	170,332	-	170,332
Property	-	16,684	-	16,684
Other	-	3,448	-	3,448
	-	379,255	-	379,255
Total instruction	219,000	379,255	114,945	713,200
Support Services:				
Student support services:				
Benefits	1,000	-	-	1,000
Services	2,000	-	-	2,000
	3,000	-	-	3,000
Instructional staff support services:				
Benefits	1,000	-	-	1,000
Services	2,000	-	-	2,000
	3,000	-	-	3,000

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS  
 Year Ended June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Expenditures (continued):				
Support Services (continued):				
General administration:				
Benefits	1,000	-	-	1,000
Services	2,000	-	-	2,000
	3,000	-	-	3,000
Building administration:				
Benefits	1,146	-	-	1,146
Services	2,825	-	-	2,825
	3,971	-	-	3,971
Business administration:				
Benefits	1,000	-	-	1,000
Services	2,826	-	30,346	33,172
	3,826	-	30,346	34,172
Plant operation and maintenance:				
Benefits	22,163	-	-	22,163
Services	46,326	-	-	46,326
Property	-	-	33,122	33,122
	68,489	-	33,122	101,611
Student transportation:				
Benefits	8,243	-	-	8,243
Services	41,821	-	-	41,821
	50,064	-	-	50,064
Total support services	135,350	-	63,468	198,818
Non-instructional:				
Food service operations:				
Benefits	296	-	-	296
Total non-instructional	296	-	-	296
Other expenditures:				
Facilities acquisition and construction:				
Services	-	-	234,012	234,012
Supplies	-	-	18,449	18,449
Total other expenditures	-	-	252,461	252,461
Total expenditures	354,646	379,255	430,874	1,164,775

## Schedule 2

PELLA COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON-MAJOR SPECIAL REVENUE FUNDS  
 Year Ended June 30, 2005

	Management	Student Activity	Physical Plant and Equipment Levy	Total
Excess of revenues over expenditures	26,749	20,625	156,419	203,793
Fund balances beginning of year	(127,123)	116,340	157,034	146,251
Fund balances end of year	\$ (100,374)	136,965	313,453	350,044

See accompanying independent auditor's report.



PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
June 30, 2005

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
<b>Assets</b>				
Cash and investments	\$ 7,833	10,100	170,088	188,021
Inventories	-	-	23,003	23,003
Property and equipment:				
Machinery and equipment	-	-	738,018	738,018
Accumulated depreciation	-	-	(609,659)	(609,659)
<b>Total assets</b>	<u>7,833</u>	<u>10,100</u>	<u>321,450</u>	<u>339,383</u>
<b>Liabilities</b>				
Accounts payable	-	636	510	1,146
Salaries and benefits payable	3,671	-	16,553	20,224
<b>Total liabilities</b>	<u>3,671</u>	<u>636</u>	<u>17,063</u>	<u>21,370</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	-	-	128,359	128,359
Unrestricted	4,162	9,464	176,028	189,654
<b>Total net assets</b>	<u>\$ 4,162</u>	<u>9,464</u>	<u>304,387</u>	<u>318,013</u>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS - PROPRIETARY FUNDS  
Year Ended June 30, 2005

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Operating revenues:				
Local sources:				
Other local sources:				
Community service tuition and fees	\$ 37,703	-	-	37,703
Sale of lunches and breakfasts	-	-	567,570	567,570
Miscellaneous	-	41,863	9,092	50,955
Total operating revenues	37,703	41,863	576,662	656,228
Operating expenses:				
Non-instructional programs:				
Community service operations:				
Salaries	27,216	22,080	-	49,296
Benefits	3,322	2,959	-	6,281
Services	-	6,222	-	6,222
Supplies	5,415	3,702	-	9,117
	35,953	34,963	-	70,916
Food services operations:				
Salaries	-	-	297,271	297,271
Benefits	-	-	98,905	98,905
Services	-	-	16,042	16,042
Supplies	-	-	349,858	349,858
Other	-	-	387	387
Depreciation	-	-	18,068	18,068
	-	-	780,531	780,531
Total operating expenses	35,953	34,963	780,531	851,447
Operating income (loss)	1,750	6,900	(203,869)	(195,219)
Non-operating revenues:				
Interest income	-	-	2,569	2,569
State lunch and breakfast program claims	-	-	9,898	9,898
State aid	-	1,126	-	1,126
National School Lunch Program	-	-	149,462	149,462
School Breakfast Program	-	-	9,905	9,905
Food distribution	-	-	39,125	39,125
Total non-operating revenues	-	1,126	210,959	212,085
Change in net assets	1,750	8,026	7,090	16,866
Net assets beginning of year	2,412	1,438	297,297	301,147
Net assets end of year	\$ 4,162	9,464	304,387	318,013

See accompanying independent auditor's report.

## Schedule 5

PELLA COMMUNITY SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
Year Ended June 30, 2005

	Enterprise Funds			
	Community Daycare	Community Services	Nutrition Services	Total
Cash flows from operating activities:				
Cash received from sale of lunches and breakfasts	\$ -	-	576,662	576,662
Cash received from service tuition, fees and other sources	37,703	42,963	-	80,666
Cash payments to employees for services	(32,945)	(28,414)	(400,212)	(461,571)
Cash payments to suppliers for goods or services	(6,238)	(9,989)	(320,392)	(336,619)
Net cash provided (used) by operating activities	(1,480)	4,560	(143,942)	(140,862)
Cash flows from non-capital financing activities:				
State grants received	-	1,126	9,898	11,024
Federal grants received	-	-	159,367	159,367
Net cash provided by non-capital financing activities	-	1,126	169,265	170,391
Cash flows from capital and related financing activities:				
Acquisition of capital assets	-	-	(23,081)	(23,081)
Cash flows from investing activities:				
Interest on investments	-	-	2,569	2,569
Net increase (decrease) in cash and cash equivalents	(1,480)	5,686	4,811	9,017
Cash and cash equivalents at beginning of year	9,313	4,414	65,277	79,004
Cash and cash equivalents at end of year	\$ 7,833	10,100	70,088	88,021
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ 1,750	6,900	(203,869)	(195,219)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Commodities	-	-	39,125	39,125
Depreciation	-	-	18,068	18,068
Decrease in inventories	-	-	6,509	6,509
Decrease in accounts receivable	-	1,100	-	1,100
Increase (decrease) in accounts payable	(823)	(65)	261	(627)
(Decrease) in salaries and benefits payable	(2,407)	(3,375)	(4,036)	(9,818)
Net cash provided (used) by operating activities	\$ (1,480)	4,560	(143,942)	(140,862)
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>				
Current assets:				
Cash and investments	\$ 7,833	10,100	170,088	188,021
Less items not meeting definition of cash equivalents:				
Certificates of deposit	-	-	(100,000)	(100,000)
Cash and cash equivalents at year end	\$ 7,833	10,100	70,088	88,021

**Non-cash investing, capital and financing activities:**

During the year ended June 30, 2005, the District received federal commodities valued at \$39,125.

See notes to financial statements.

## PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS  
Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Orchestra	\$ 1,945	455	442	1,958
Music/Orchestra Fundraiser	1,753	13,288	10,035	5,006
Booster/PTO Concessions	1,306	49,573	50,012	867
HS Drama	589	1,027	996	620
HS Speech	1,548	390	955	983
HS Debate	141	50	50	141
HS Vocal	3,263	20,897	11,931	12,229
HS Instr. Music	6,308	5,114	7,248	4,174
HS Instr. Music Fundraiser	15,109	2,377	-	17,486
Band Boosters	2,691	12,120	3,173	11,638
Athletics	10,803	16,486	17,870	9,419
HS Boys Bask.	-	12,918	12,918	-
HS Football	-	16,650	16,650	-
HS Football Jerseys	1,362	-	750	612
HS Boys Soccer	-	7,737	7,737	-
HS Baseball	-	6,464	7,244	(780)
HS Track	-	3,060	3,060	-
HS Boys Cross Country	-	1,401	1,401	-
HS Boys Tennis	-	873	855	18
HS Boys Golf	-	1,897	1,897	-
HS Boys Swimming	-	1,057	1,057	-
Tennis Club	1	2,657	2,678	(20)
HS Wrestling	-	2,821	2,821	-
Wrestling Club	725	6,290	6,929	86
HS Girls Basketball	-	9,140	9,140	-
HS Volleyball	-	11,243	11,243	-
Volleyball Club	209	435	661	(17)
HS Girls Soccer	-	6,979	7,145	(166)
HS Softball	-	6,052	6,407	(355)
HS Girls Track	-	2,551	2,551	-
HS Girls Cross Country	-	1,751	1,751	-
HS Girls Tennis	-	2,650	2,650	-
HS Miscellaneous Activity	78	787	865	-
Art Club	28	-	-	28
Pella Connection Club	1,668	150	-	1,818
HS Cheerleaders	440	4,000	3,740	700
HS Testing	1,178	3,639	3,333	1,484
Class of 2004	(298)	298	-	-
Class of 2005	326	-	50	276
Class of 2006	2,741	2,163	5,490	(586)
Class of 2007	1,571	996	-	2,567
Class of 2008	-	987	-	987
Concessions	607	-	-	607
Softball Concessions	1,776	2,096	1,996	1,876
Baseball Concessions	152	41	-	193
Boys Basketball Concessions	2,384	7,836	5,806	4,414
Dinners Served	331	-	-	331
Dafy Club	281	-	-	281
Drill Team	4,909	16,755	16,466	5,198

## PELLA COMMUNITY SCHOOL DISTRICT

SCHEDULE OF CHANGES IN INDIVIDUAL STUDENT ACTIVITY ACCOUNTS  
Year ended June 30, 2005

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
FFA	3,250	25,621	24,672	4,199
FHA	2,353	2,454	1,984	2,823
Humanities	997	-	572	425
Interest	1,541	(297)	147	1,097
Technology Student Association	3,016	8,707	4,492	7,231
Student Environ. Action	7	-	-	7
National Honor Society	449	100	187	362
Pep Club	220	100	64	256
HS PE Heart Club	65	4,625	3,792	898
French Club	1,571	-	-	1,571
HS Student Council	2,937	10,354	13,517	(226)
Publications	17,446	33,914	36,770	14,590
Craft Show-Yearbook	6,911	5,110	5,965	6,056
HS Weight Club	325	5,286	333	5,278
MS Vocal Music	578	-	-	578
MS Instr. Music	1,628	-	-	1,628
MS Athletics	-	2,183	2,183	-
MS Boys Bask	-	1,141	1,141	-
MS Football	-	3,582	3,582	-
MS Boys Track	-	895	895	-
MS Wrestling	-	745	745	-
MS Girls Bask	-	1,110	1,110	-
MS Volleyball	-	1,923	1,923	-
MS Softball	-	1,766	1,936	(170)
MS Girls Track	-	1,989	1,989	-
MS Cheerleaders	148	-	-	148
MS Library/Book Fair	365	-	-	365
MS History Day Club	21	-	-	21
MS Gifted and Talented	(399)	1,995	305	1,291
MS Activity	4,352	680	5,279	(247)
MS Home Ec Resale	151	3,794	2,622	1,323
MS Language Arts Resale	36	80	52	64
MS Social Studies Resale	88	493	387	194
MS AR Store	69	-	-	69
MS Student Council	1,601	1,407	1,092	1,916
Elem. Activity	60	-	-	60
Elem. PTO	168	-	133	35
E.L.M.A.	68	-	-	68
Lincoln Elementary	(141)	3,863	3,722	-
Webster Elementary	9	2,562	2,547	24
Jefferson Elementary	233	7,195	7,114	314
Jefferson Recycling	292	352	-	644
Totals	\$ 116,340	399,880	379,255	136,965

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES  
 AGENCY FUND  
 Year ended June 30, 2005

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash	\$ 36,063	38,985	25,115	49,933
Receivables:				
Accounts	3,086	-	3,086	-
<b>Total assets</b>	<b>\$ 39,149</b>	<b>38,985</b>	<b>28,201</b>	<b>49,933</b>
<b>Liabilities</b>				
Accounts payable	\$ 39,149	38,985	28,201	49,933
<b>Total liabilities</b>	<b>\$ 39,149</b>	<b>38,985</b>	<b>28,201</b>	<b>49,933</b>

See accompanying independent auditor's report.

PELLA COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		2005	2004	2003	2002
Revenues:					
Local sources:					
Local tax	\$	7,744,098	7,073,282	6,725,009	6,600,191
Tuition		601,419	489,605	201,329	216,030
Other		755,499	672,917	1,207,656	996,648
Intermediate sources		15,000	15,000	18,428	15,309
State sources		7,999,448	7,781,624	7,426,618	7,481,658
Federal sources		430,845	446,378	344,089	263,894
Total	\$	17,546,309	16,478,806	15,923,129	15,573,730
Expenditures:					
Instruction:					
Regular instruction	\$	6,275,810	6,321,718	\$ 6,025,245	6,176,546
Special instruction		2,183,808	2,062,595	1,859,024	1,706,911
Other instruction		1,207,063	1,285,721	1,483,823	1,279,078
Support services:					
Student services		325,470	499,204	484,767	444,537
Instructional staff services		794,337	677,684	628,426	624,769
Administration services		1,284,737	1,136,764	1,103,990	1,041,328
Operation and maintenance of plant services		1,489,740	1,639,083	1,383,316	1,284,975
Transportation services		693,693	699,316	553,744	603,798
Non-instructional programs		296	16,086	11,350	7,467
Other expenditures:					
Facilities acquisition		1,760,941	597,119	361,383	354,533
Long-term debt:					
Principal		995,000	805,000	770,000	935,000
Interest and other charges		386,050	368,831	403,278	450,694
AEA flowthrough		586,232	592,881	604,874	608,706
Total	\$	17,983,177	16,702,002	15,673,220	15,518,342

See accompanying independent auditor's report.

## PELLA COMMUNITY SCHOOL DISTRICT

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2005

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u>
Indirect:			
U.S. Department of Agriculture:			
Iowa Department of Education:			
Food Distribution (non-cash)	10.550	FY 05	<u>\$ 39,125</u>
School Nutrition Cluster Programs:			
School Breakfast Program	10.553	FY 05	9,905
National School Lunch Program	10.555	FY 05	<u>149,462</u>
			<u>159,367</u>
U.S. Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	FY 05	<u>142,351</u>
Vocational Education - Basic Grants to States	84.048	FY 05	<u>44,026</u>
Safe and Drug-Free Schools and Communities - State Grants	84.186	FY 05	<u>7,964</u>
State Grants for Innovative Programs	84.298	FY 05	<u>9,889</u>
Improving Teacher Quality State Grants	84.367	FY 05	<u>70,494</u>
Grants for State Assessments and Related Activities	84.369	FY 05	<u>12,474</u>
Area Education Agency (AEA 11):			
Special Education - Grants to States	84.027	FY 05	<u>115,011</u>
Total			<u>\$ 600,701</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Pella Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.





Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of  
Pella Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Pella Community School District, Pella, Iowa, and its aggregate discretely presented component units as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements listed in the table of contents and have issued our report thereon dated September 21, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pella Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs..

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pella Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom the District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Pella Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Van Maanen & Associates, P.C.  
Certified Public Accountants

September 21, 2005



Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Pella Community School District:

Compliance

We have audited the compliance of Pella Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Pella Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Pella Community School District's management. Our responsibility is to express an opinion on Pella Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pella Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Pella Community School District's compliance with those requirements.

In our opinion, Pella Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Pella Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Pella Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Pella Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item III-A-05 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item III-A-05 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pella Community School District and other parties to whom Pella Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

*Van Maanen & Associates, P.C.*

Van Maanen & Associates, P.C.  
Certified Public Accountants

September 21, 2005

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED June 30, 2005

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 - Title I Grants to Local Educational Agencies
  - Clustered programs:
    - CFDA Number 10.553 - School Breakfast Program
    - CFDA Number 10.555 - National School Lunch Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Pella Community School District did not qualify as a low-risk auditee.

**Part II: Findings Related to the Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS**

- II-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED June 30, 2005

**Part III: Findings and Questioned Costs for Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

**All programs displayed on the Schedule of Expenditures of Federal Awards**

- III-A-05 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

**Part IV: Other Findings Related to Required Statutory Reporting:**

- IV-A-05 Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were exceeded during the year ended June 30, 2005 when bond proceeds were deposited.

Recommendation - Official depositories should be approved so that maximum deposit amounts are not exceeded as required by Chapter 12C.2 of the Code of Iowa.

Response - We will make sure this is done prior to receiving large amounts in the future.

Conclusion - Response accepted.

- IV-B-05 Certified Budget - Disbursements for the year ended June 30, 2005, did not exceed the amounts budgeted.

- IV-C-05 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- IV-D-05 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

PELLA COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED June 30, 2005

IV-E-05 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Ivan Vos, Vice Pres. of Board Shareholder, Leighton Lumber, Inc.	Lumber	\$2,155
Jim Emmert, Teacher Owner, Dr. E. Unlimited	T-shirts	\$ 170

None of the transactions appear to be a conflict of interest and they appear to be in accordance with board policies.

Recommendation - The District may want to consult legal counsel to determine disposition of this matter.

Response - We will consider the need to consult with legal counsel.

Conclusion - Response accepted.

IV-F-05 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.

IV-G-05 Board Minutes - No transactions requiring Board approval which had not been approved by the Board were noted.

IV-H-05 Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.

IV-I-05 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the District's investment policy were noted.

IV-J-05 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.

IV-K-05 Financial Condition - The Special Revenue Fund, Management Account had a deficit balance at June 30, 2005 of \$100,374.

Recommendation - The District should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position.

Response - The deficit balance is being looked into and the District hopes to have this deficit balance resolved in the upcoming year.

Conclusion - Response accepted.